



Economic Diplomacy and Connectivity

What Role for the OSCE?

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Chişinău Railway Station in the Moldovan capital is the starting point for a 180km journey to Odesa through the Transdnistrian region. The resumption of the passenger railway service Chişinău-Tiraspol-Odesa in 2011 was a significant step in a confidence-building process long supported by the OSCE. (Credits: OSCE/Jonathan Perfect)



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Ultimately, the usual disclaimer applies: the views expressed in this report are my own and do not necessarily reflect those of any of the individuals and organisations mentioned above.

List of Abbreviations

AA	Association Agreement	GIS	Geographical Information System
AHDR	Association for Historical Dialogue and Research	GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ASEM	Asia-Europe Meeting	GLR	Green Line Regulation
BEREC	Body of European Regulators for Electronic Communications	ICT	Information and communication technologies
BRI	Belt and Road Initiative	IPA	Instrument for Pre-Accession (European Commission)
BTC	Baku-Tbilisi-Ceyhan oil pipeline	ITC	Inland Transport Committee
BTE	Baku-Tbilisi-Erzurum natural gas pipeline	ITIO	International Transport Infrastructure Observatory
C2C	City-to-City	OECD	Organisation for Economic Co-operation and Development
CAEWDP	Central Asia Energy-Water Development Program	OSCE	Organization for Security and Co-operation in Europe
CBM	Confidence-building measure	RCC	Regional Co-operation Council
CEFTA	Central European Free Trade Agreement	SDC	Swiss Agency for Development and Co-operation
CEI	Central European Initiative	SEECp	South-East European Co-operation Process
DANIDA	Danish International Development Agency	SGS	Société Générale de Surveillance
DCFTA	Deep and Comprehensive Free Trade Area	SIDA	Swedish International Development Agency
EATL	Euro-Asian Transport Links	SMEs	Small and medium-sized enterprises
EBRD	European Bank for Reconstruction and Development	SMMU	Special Monitoring Mission to Ukraine
EEA	European Economic Area	SPECA	Special Programme for the Economies of Central Asia
EEU	Eurasian Economic Union	TERP	Transitional Economic Rehabilitation Programme
EFTA	European Free Trade Area	UNDP	United Nations Development Programme
ERP	Economic Rehabilitation Programme	UNECE	United Nations Economic Commission for Europe
EU	European Union	UNODC	United Nations Office on Drugs and Crime
EUBAM	European Union Border Assistance Mission to Moldova and Ukraine	UNOMIG	United Nations Observer Mission in Georgia
FDI	Foreign direct investment	WB6	Western Balkans Six (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia)
		WTO	World Trade Organization

Introduction

Economic connectivity refers to 'any form of informal economic relationship among states or regional groupings, including trade, business activities, financial relationships, human mobility, and state-sponsored economic relations.'³

This includes, *inter alia*, economic connections related to 'trade, FDI, migration, information and communication technologies (ICT), air transport and portfolio financial flows.'⁴ Economic connectivity has the potential to increase opportunities for improved economic relations between (and within) states, and as such is very different from the notion of economic integration. The latter refers to mutual agreements between countries in a specific geographic region to reduce or remove barriers to the free movement of people, goods, capital, or services (ie, reduction of customs duties and free trade agreements) or to co-ordinate their fiscal, trade and monetary policies.

Economic connectivity is a significant feature of current globalised societies, characterised by an increasing multiplicity of both political and economic interactions.

At the same time, economic connectivity itself is nothing new but has been a prevailing feature of human development in general and has been inseparable from its social and political dimensions. Take the example of the historic Silk Road, which helped to develop durable economic and political ties within and across civilizations in Europe, Asia and the Middle East, and its revival in the China-led Belt and Road Initiative (BRI).⁵ Other recent examples of how political and economic interests and opportunities intersect to jumpstart and enhance economic connectivity include the so-called 'Blue Banana', which represents a corridor of trade, industrialisation and urbanisation spreading across Western Europe from the United Kingdom to Northern Italy,⁶ and the Western Balkans, Connectivity Agenda, which aims at enhancing connectivity within the region and between the region and the European Union (EU), and is part of a wider EU strategy for the Western Balkans which has EU membership for the Western Balkans Six (WB6) as its ultimate endpoint.⁷

Economic connectivity is a major driver of economic development. It can enhance opportunities for the economic participation of private sector companies, including small and medium-sized enterprises (SMEs), business associations, and individuals. Economic connectivity has also been demonstrated to be particularly effective at the local level as witnessed by several initiatives promoted in the past decades by the United Nations and the European Union based on the so-called City-to-City (C2C) approach.⁸

Economic connectivity is multidimensional and most beneficial when it ties countries and regions together across multiple channels. As evidenced in a recent World Bank paper, '[t]he growth impact of multidimensional connectivity is higher than the impact of each of the individual network indices, suggesting that overall connectivity is more important than each of the individual channels separately.'⁹ From a policy perspective, the implication is that promoting multidimensional connectivity is more impactful for overall growth and development, while closing down one channel of connectivity may have a negative impact beyond just this channel.¹⁰

Economic connectivity is dependent on many factors: geography; physical infrastructure, such as transport networks, communication and energy infrastructures; regulatory and legal frameworks; border management; human mobility; economic incentives; the availability of financial instruments; enabling institutions; relevant knowledge and understanding, and political will.

Harmonisation between regulatory and legal frameworks is central to ensure a common understanding and mutual respect, including in areas such as energy, information and communication technology, environment and food security. The capacity of an individual state to manage all these factors effectively in an increasingly globalised world that is simultaneously threatened by new nationalist and protectionist impulses is naturally limited. By developing stronger ties

between countries, economic connectivity increases not only economic development potential but also interdependence and thus vulnerability. Managing vulnerability by developing and implementing a common framework for 'sustainable and rules-based connectivity'¹¹ is critical if economic connectivity is to deliver to its full potential for states and citizens alike.

Trade is vital to economic development and economic growth. Levels of trade are highly dependent on the degree of both hard and soft economic connectivity. A functioning and well-maintained physical transport infrastructure (ie, an element of hard connectivity) is as important as is integrated border management which, in turn, can be assisted further by the harmonisation of standards and regulations (ie, an element of soft connectivity).

Trade is also often considered to be an important element in a broader strategy of confidence building and conflict prevention. There are likely important 'spill-over effects from trade: in order to sustain and expand trade, it needs to be facilitated, including in relation to transport, finance, development of





Participants get ready for the Conference on Connectivity for Commerce and Investment hosted by the German OSCE Chairmanship in Berlin on 18 and 19 May 2016. (Credits: OSCE/Ursula Froese)

common standards, dispute resolution, etc.¹² Thus, using economic diplomacy to facilitate trade not only enhances economic connectivity but it can also contribute more generally to security and stability within countries, and within and across sub-regions of the OSCE area.

There is strong interdependence between energy importing and exporting countries. This includes energy infrastructure, supply, and transit, and is directly linked to the concept of energy security, namely the capacity of a state to ensure uninterrupted availability of energy at an affordable price for businesses and individuals, as well as for maintaining critical national infrastructures.

In the field of digitalisation, the challenges are equally multiple and increasing.

These include connectivity challenges both in technical, legal-political, and market terms, including internet freedom, net neutrality, cyber security, and data protection and privacy. Societal and socio-economic challenges concern ageing populations, the 'migration' of jobs, and growing personal and social dependency on connectivity. In addition, there are environmental and energy concerns

including environmental impact and availability of raw materials.

Tackling these issues requires effective co-operation. Governments and regional and international organisations can promote digital connectivity by negotiating and establishing common legal, governance, and policy frameworks, standards, and protocols, as well as tailored mechanisms and policy interventions to regulate and control digitalised environments. Yet, states alone cannot manage these combined challenges without closer co-operation with the private sector, particularly in terms of investment and research and development, and civil society.¹³ The involvement of the private sector and civil society organisations, especially small entrepreneurs and innovation start-ups, is fundamental to develop a fertile business environment in which digitalisation can contribute to enhancing economic connectivity.

Economic diplomacy is one among several instruments states can use to manage their own economic connectivity in relation to other states. While it often involves, and in fact may require, close co-operation between

states, the private sector and civil society, it remains subject to the primacy of the political: economic diplomacy can enhance or decrease connectivity, it can be used to promote free trade or pursue a protectionist agenda.¹⁴

Examples of economic diplomacy in the OSCE region date back to the Helsinki Final Act of 1975. Since then, the international context in which the OSCE is operating has changed significantly. The organisation now has 57 participating States. Many new sub-regional organisations have emerged, while others have expanded in membership. Regional and international organisations, including international financial institutions, have invested in economic development across the OSCE region, as have individual states on a bilateral level. The private sector, too, has played an important role in contributing to economic growth with transnational corporations now increasingly relying on global value chains, many of which criss-cross the OSCE region.

Two major projects of economic integration now dominate the OSCE region.

The EU and the Eurasian Economic Union (EEU) may be at different levels of maturity, but their interactions are critical factors in whether and how economic diplomacy and connectivity can contribute to achieving shared goals such as peace, security and inclusive economic growth. The EU and EEU 'share some common characteristics' but 'there are significant differences between them in terms of the economic weight of their members as well as of the union as a whole.'¹⁵ Moreover, states not currently members of either bloc face pressure to choose between them, and once they have done so on the basis of formalising their relationships through accession or wide-ranging agreements, find it more difficult to maintain relations with both.

At the same time, China has become a more important economic actor in the OSCE region as well.

With the 2013 Belt and Road Initiative, China has intensified its efforts and investments to create and enhance transport, energy, and ICT infrastructure right across the OSCE region. This has, so far, particularly affected participating States in Central Asia and the Western Balkans.

Economic diplomacy and connectivity, therefore, do not exist in a vacuum.

In order to understand what role the OSCE can play in facilitating economic diplomacy and fostering economic connectivity, we need to examine this broader context of relationships across the OSCE area, including among participating States, across different dimensions and institutions within the OSCE and in its field operations, at the regional and sub-regional level of the OSCE, and between these three arenas.

The OSCE and its participating States have a variety of important partners for economic diplomacy and connectivity in the private sector and among other regional and international organisations.

These, too, can make a critical contribution to shaping the direction of economic diplomacy towards enhancing connectivity. It is important, however, to bear in mind that the OSCE as an actor is very distinct from its participating States, state-like actors and partners in the private sector and among other international and regional organisations.



Tangled wires. (Credits: OSCE/Tatiana Stepanova)

The OSCE is a unique framework in the Eurasian and Euro-Atlantic context to facilitate economic diplomacy and contribute to enhancing economic connectivity.

While not a 'traditional' international actor, it brings a number of valuable capabilities to the table, including its convening and agenda-setting powers and its ability to act as a forum where consensus-oriented debates can happen.

The role of the OSCE in this context is significant but has not been explored systematically either in existing literature or in practice. The challenge that this report is taking on is to explore what the Organization could and should concretely do in order to enhance economic connectivity within the context of the core mandate it received from participating States in Helsinki in 1975 'of promoting better relations among themselves and ensuring conditions in which their people can live in true and lasting peace free from any threat to or attempt against their security'.¹⁶

The Context of Economic Connectivity and Diplomacy in the OSCE Region

*From the Helsinki Final Act to
Ministerial Council Decision 4/2016*

Increasing economic connectivity by promoting trade and reducing trade barriers has been an established goal of the OSCE since the Helsinki Final Act. The section on the so-called second dimension in the CSCE founding document opens with a statement of the conviction of the signatories 'that their efforts to develop co-operation in the fields of trade, industry, science and technology, the environment and other areas of economic activity contribute to the reinforcement of peace and security in Europe and in the world as a whole' and 'that co-operation in these fields would promote economic and social progress and the improvement of the conditions of life'.¹⁷

The Helsinki Final Act contains wide-ranging provisions covering commercial exchanges, industrial co-operation, trade, science and technology, the environment, tourism, labour migration and transport. Trade, in particular, is recognised by the signatories as 'an essential sector of their co-operation'. Therefore, the signatories agreed that they will endeavour to 'reduce or progressively eliminate all kinds of obstacles to the development of trade'. Participating States also committed to the 'widest possible' harmonisation of standards and technical regulations, as well as to co-operation with regard to certification.¹⁸

The second dimension of economic and environmental activities never really took off during the Cold War. It briefly entered the limelight at the Bonn Conference in April 1990, when the transformation from planned to market economy in the countries of the former Soviet bloc became the cornerstone of political

attention. Yet, by the time of the Paris Charter of November 1990, participating States refocused their attention on commitments at the nexus of human rights, democracy, and the rule of law. Economic and trade issues were to be dealt with by the General Agreement on Tariffs and Trade, which was soon to become the World Trade Organization (WTO).

After a decade of neglect, the problems of economic transformation resurfaced in the 2003 OSCE Strategy Document for the Economic and Environmental Dimension, adopted at the Maastricht Ministerial Council.¹⁹ While the baseline goals of achieving a market economy and joining the WTO are not explicitly mentioned, the difficulties that many countries have in achieving them are acknowledged openly and

the OSCE is given a role to help countries master the transition by addressing illegal economic activities, governance and environmental problems and enhancing co-operation. The participating States also agreed that regional integration processes should 'take due account of the economic interests of other participating States and do not contribute to the creation of new divisions'. Regarding trade facilitation, the participating States committed themselves to making progress on the harmonisation of regulations and standards, and the elimination of customs duties. Yet, overall the text falls short of a real enhancement of the Organization's role in those issues. It only endows the Organization with a subsidiary function as a forum for dialogue and a catalyst for progress in other, 'more appropriate' fora.



Flags of the OSCE participating States. (Credits: OSCE/Mikhail Evstafiev)



23rd OSCE Ministerial Council, Hamburg, 6–9 December, 2016. (Credits: Auswärtiges Amt)

The crisis in and around Ukraine since late 2013 has forced governments to rethink previous approaches and to re-evaluate the OSCE as a forum for addressing security issues. This was not without logic because the necessity to choose between EEU membership and an Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA), with the European Union had been presented as a civilizational choice and proved highly divisive in Ukraine. As the crisis deepened and security and human rights issues became more and more contested in the OSCE, the second dimension has come to be seen as a place where engagement and agreements among participating States are still possible.

The Swiss OSCE Chairmanship period in 2014 aimed to establish economic confidence-building measures, such as monitoring mechanisms, including in conflict contexts, in order to build confidence and avert the further breakdown of connectivity. It also wanted to facilitate the dialogue between integration processes. While this proved to be too ambitious, as the OSCE, as a security organisation, was ill-equipped to deal with this challenge and the willingness of participating States to engage was low, the Swiss Chairmanship prepared the ground for the subsequent explicit focus on economic connectivity and the reinvigoration of the OSCE's Second Dimension.

The German OSCE Chairmanship period in 2016 built on this foundation and focused on highlighting the benefits of interconnected economies. This allowed for positive conversations among participating States that led to a Ministerial Council Decision on Strengthening Good Governance and Promoting Connectivity.²⁰ In this Decision, the participating States recognise 'that connectivity through transport and trade facilitation, including through measures at different levels of government, can enhance economic co-operation that is mutually beneficial and contribute to good neighbourly relations, confidence-building and trust in the OSCE area'.

The Ministerial Council Decision invites participating States to become more connected economically on the basis of good governance and recognises the positive benefits that integration processes and economic co-operation can have in this regard, including on security. Decision 4/2016 puts economic connectivity specifically in the context of good governance and an improved business climate, thereby emphasising a transparent and accountable environment as a prerequisite for greater connectivity. This link is further emphasised through the connection to trade facilitation as an important part of economic co-operation. Trade facilitation is a well-developed concept that emphasises reduction of at- and behind-

the-border barriers to trade, by making procedures more transparent and accountable, and by reducing unnecessary barriers, especially non-tariff barriers.

OSCE participating States have not yet put forward a consensual definition of economic connectivity. However, 33 of them, using the intergovernmental process known as Asia-Europe Meeting (ASEM), have agreed that connectivity is 'about bringing countries, people and societies closer together. It facilitates access and is a means to foster deeper economic and people-to-people ties. It encompasses the hard and soft aspects, including the physical and institutional social-cultural linkages that are the fundamental supportive means to enhance the economic, political-security, and socio-cultural ties between Asia and Europe, which also contribute to the narrowing of the varying levels of development and capacities.'²¹

Further promoted by the Austrian and Italian OSCE Chairmanships in 2017 and 2018, the 2016 consensus on connectivity as a matter of transport and trade facilitation has been sustained. It thus frames the further analysis in this report, which first turns to an assessment of the landscape of connectivity promotion in the OSCE region before examining existing practices of economic diplomacy and connectivity.

The Crowded Space of Economic Diplomacy and Connectivity in the OSCE Region

Economic connectivity may be a relatively new term in OSCE vocabulary, but the ideas underpinning it reach back to the Helsinki Final Act. It is equally important to be aware that the OSCE is not the only actor promoting economic connectivity in its region. Multiple other regional and international organisations pursue activities that have potential for enhancing economic connectivity, while there are also a wide range of private sector actors and joined private-public initiatives operating in this space.

States and the regional and international organisations in which they participate set the relevant legal and regulatory framework in which activities that seek to promote economic connectivity take place.

Consequently, it is important to understand which of these actors are active across the OSCE region, what they do, and how they do it. Such a better understanding then also serves as a foundation upon which it is possible to determine gaps in existing approaches to enhancing economic connectivity and how these can be addressed by the OSCE, including by generating and sharing best-practice lessons.

Important distinctions must be drawn between free trade organisations, multilateral initiatives and development organisations. These all have different mandates and offer variable opportunities and constraints for economic connectivity. They are often regionally and/or sectorally focused and differ in terms of the extent to which they pursue clearly defined strategic objectives rather than implement programmes or projects that are generally thought to serve more vaguely defined goals.

Free Trade Organisations

Free trade organisations play a key role in promoting economic connectivity through free trade agreements. Their focus is mainly regional as in the case of the European Free Trade Area (EFTA) and Central European Free Trade Agreement (CEFTA), but may foresee co-operation with other free trade initiatives at the global level as demonstrated by EFTA, which developed a global network of 27 free trade agreements with 38 partners

worldwide. Free trade organisations, moreover, offer a significant degree of flexibility in terms of changing membership over time and the ability to focus on specific policy areas when it comes to regulatory harmonisation, infrastructure enhancement, and institutional capacity building.

EFTA brings together the current 28 EU Member States and the three European Economic Area (EEA) Member States – Iceland, Liechtenstein and Norway – in a Single Market. EFTA's current main focus is mobile connectivity and electronic communication, contributing, *inter alia*, to re-establishing the Body of European Regulators for Electronic Communications (BEREC) as part of the revision of the telecom regulatory framework known as the 'Connectivity Package'.²²

CEFTA represents another key regional instrument promoting enhanced economic connectivity. Initially aimed to support Visegrad countries (Czech Republic, Hungary, Poland, and Slovak Republic) in their path towards democracy and a market economy, it was subsequently enlarged to include Slovenia, Romania, Bulgaria, Croatia and the former Yugoslav Republic of Macedonia. After the EU accession of most of these countries, CEFTA was transformed to include the remaining countries of the Western Balkans and Moldova. CEFTA is currently part of the South East Europe (SEE) 2020 strategy²³ and of the EU Connectivity Agenda.

Multilateral Organisations

Multilateral organisations represent one of the most prominent actors in promoting co-operation among states at both regional and global levels. They play a fundamental role in enhancing connectivity across areas from political dialogue and security, to the environment and sustainable development, and to transport, trade and digitalisation. Several global and regional multilateral organisations are active within the OSCE area, including the Central European Initiative (CEI) and the Regional Co-operation Council (RCC) at the regional level, as well as the WTO, World Bank, and UN Agencies, such as the United Nations Economic Commission for Europe (UNECE).

The Central European Initiative was initially conceived as a regional intergovernmental platform for political dialogue and co-operation. It brings together countries of Western (Austria²⁴ and Italy), Central (Czech Republic, Hungary, Poland, Slovenia and the Slovak Republic), Eastern (Belarus, Moldova, Ukraine) and South-Eastern Europe (Albania, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia). Its current main connectivity priorities are the strengthening of transport networks, regional co-operation on the improvement of research and innovation systems, and the promotion of a regional blue economy, thereby also fostering cross-regional connectivity between EU and non-EU members of the CEI.²⁵

The Regional Co-operation Council is an EU-supported sub-regional initiative involving countries of South-Eastern Europe and other international partners.

Its main objective is promoting co-operation in the region in line with the South-East European Co-operation Process (SEEC) and its South-East Europe 2020 Strategy.²⁶ Enhancing connectivity is among one of the RCC's main priorities, particularly as regards transport, energy, digitalisation and trade. It is closely aligned with the EU Connectivity Agenda for the Western Balkans, which foresees substantive connectivity investments, including in the extension of the Trans-European Transport Network (TEN-T), Trans-European Energy Networks (TEN-E), and in broadband and ICT infrastructure. Because of its membership base and combined regional and cross-regional outlook, the RCC also provides a critical link to CEFTA.

The World Trade Organization conceives connectivity as leverage for economic development with a key role played by trade connectivity. The WTO developed tailored trade connectivity programmes, including, within the OSCE region, the Trade Facilitation Agreement, which aims at reducing the existing red tape in moving goods across borders.²⁷ The WTO works with a number of partners in supporting national implementation of the Trade Facilitation Agreement, including with the World Bank²⁸ and the Office of the Co-ordinator of OSCE Economic and Environmental Activities.²⁹

The United Nations Economic Commission for Europe (UNECE) plays a leading role in enhancing connectivity at the European level and beyond. Its several initiatives include the pan-European Inland Transport Committee (ITC), Geographical Information System (GIS) on international transport, a Unified Railway Law between Eastern and Western Europe and the TIR carnet transport system. Among its regional initiatives, UNECE has a dedicated a Special Programme for the Economies of Central Asia (SPECA), a Euro-Asian Transport Links (EATL) project aimed at supporting the development of coherent Euro-Asian inland transport links, and an International Transport Infrastructure Observatory (ITIO) focused on reducing obstacles to transport and promoting connectivity in the Eurasian region. For example, in the South Caucasus, UNECE works on enhancing customs co-operation across the region.³⁰

The United Nations Office on Drugs and Crime (UNODC) has a double-facetted concept of connectivity. Connectivity is seen both as a means used by transnational organised crime to further expand criminal networks and activities, as well as an effective mechanism to enhance co-operation between states against transnational crime. Among various regional initiatives across the OSCE area, UNODC is currently implementing a specific Regional Programme for South-Eastern Europe (2016–2019) with a view to promoting co-operation in areas such as border control, terrorism, drugs smuggling, and trafficking.³¹

The Organization for Economic Co-operation and Development (OECD) has a multidimensional concept of connectivity. This approach emphasises the strong interdependence between trade, infrastructure, energy, transport, and ICT. Among its regional initiatives is the Eastern Europe and South Caucasus Initiative aimed at capacity-building activities and monitoring of reform implementation. This initiative is implemented in close co-ordination with, and financed by, the EU-led EU4Business Initiative (covering the Eastern Partnership countries of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).³²

The European Bank for Reconstruction and Development (EBRD) considers connectivity as a fundamental tool to foster integration between countries. In line with its current Economic Inclusion Strategy (2017–2021), connectivity, especially

improved transport and ICT connectivity, is considered a central element in any economy's competitiveness.³³ The EBRD has launched several initiatives aimed at promoting connectivity in the OSCE area. For example, in the Western Balkans it has contributed to the EU-led Western Balkans Investment Framework since 2009.³⁴

Development Organisations

Development organisations significantly contribute to enhancing connectivity by promoting regional co-operation in specific areas such as sustainable development, good governance and democratisation. Within the OSCE area, a key role is played by the World Bank and the United Nations Development Programme (UNDP), as well as by national development agencies of specific countries such as the German Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Swiss Agency for Development and Co-operation (SDC), the Swedish International Development Agency (SIDA) and the Danish International Development Agency (DANIDA).

The World Bank aims at enhancing global connectivity with a view to achieving sustainable development and shared prosperity. In the OSCE area, it has dedicated regional initiatives, including the Western Balkans Trade and Transport Facilitation Project and the Central Asia Energy-Water Development Program.³⁵ In addition, the World Bank also supports in-country initiatives, such as the rehabilitation of East-West Railway Corridor in Azerbaijan and the East-West Highway Corridor Improvement Project in Georgia.³⁶

The United Nations Development Programme works on enhancing connectivity both through regional and country-specific initiatives including in post-conflict areas. In the OSCE region, UNDP recently adopted a Regional Programme for Europe and the Commonwealth of Independent States (2018–2021) aimed at supporting and promoting co-operation within the region in line with the five UNDP regionality principles.³⁷ In the OSCE area, UNDP works, through its network of field offices, on further promoting exchange and connectivity particularly via its UNDP Innovation Facility for Country Offices, for example, in Moldova, the former Yugoslav Republic of Macedonia, Georgia, Kosovo* and Serbia.³⁸

The Deutsche Gesellschaft für Internationale Zusammenarbeit is an example of a governmental development organisation. It promotes regional co-operation and connectivity in most of the countries of the OSCE region. It does so by involving authorities at both national and local level in areas such as economic development and good governance, legal reform, *drug prevention*, water management and environmental protection. For example, the GIZ has implemented a multi-annual programme to support regional trade in Central Asia.³⁹ In the South Caucasus, the GIZ has promoted cross-border co-operation between local bodies and municipal authorities in border regions to enable them to participate in EU calls for project proposals in the framework of the Eastern Partnership Territorial Co-operation programmes.⁴⁰

This is by no means an exhaustive list of relevant actors but it highlights a number of critical aspects of the economic diplomacy and connectivity space in the OSCE region. Different states, the organisations in which they are members, and the initiatives that they are supporting or benefiting from often overlap in their aims and activities, resulting in both *ad hoc* and in some cases also strategic co-ordination and co-operation. This also means that economic connectivity is pursued in multilateral rather than bilateral frameworks. While these multilateral frameworks are not *per se* mutually exclusive, they still exist in the broader context of what the Helsinki Final Act considered as 'the diversity of... economic and social systems'.⁴¹ Thus, one of the challenges and opportunities of the promotion of economic connectivity at the national and sub-regional level is to overcome these larger divisions by enhancing economic connectivity across its trade, energy, and digital dimensions.

*All references to Kosovo, whether to the territory, institutions or population, in this text should be understood in full compliance with United Nations Security Council Resolution 1244.



*Traffic on a snow-lined road between Tashkent and the Ferghana Valley in Uzbekistan, 13 March 2008.
(Credit: OSCE/Murod Khusanov)*

Examples of Economic Diplomacy and Connectivity in the OSCE Region

Sub-regional Economic Diplomacy and Connectivity

Central Asia

Central Asia occupies a geostrategic position at the heart of Eurasia. Its proximity to China, in particular, has made the region an important economic east-west connector that is critical to Russia, China and the EU as their respective connectivity agendas make contact. At the same time, Central Asia's energy resources, too, position it well in relation to Europe, Russia, and China.

Given the legacies of relatively low levels of economic development, connectivity in Central Asia has been driven primarily by foreign investment. While this has slowed, and in some cases critically reversed, the decay of physical connectivity infrastructure, it has also created a potential regional debt trap and increased Central Asian countries' dependency on China, especially in the context of the Belt and Road Initiative since 2013.

Water and energy issues create important incentives and opportunities for intra-regional connectivity, but have also been a source of conflict and competition in the past. Following political changes in Uzbekistan after August 2016, long-standing trends of intra-regional fragmentation have been, to some extent, reversed. Initiatives like the re-opening of borders and the restoration of bus and flight connections across the region have had a positive influence on levels of connectivity between the countries of Central Asia and on the daily lives of their citizens.

Connectivity in Central Asia has been as much a political as an economic issue and one that has been driven from both inside and outside the region. Consequently, the dynamics of economic diplomacy and



Zone of customs control in Aktau, Kazakhstan, 29 August 2018. (Credits: OSCE/Aigul Zharas)

connectivity have played out in the complex relationships between the countries of Central Asia and between them and their external partners. This has critically shaped the opportunities and constraints that regional and international organisations have to promote economic connectivity.

The OSCE has a well-developed ground presence in Central Asia. The Organisation is present in all five Central Asian countries with a Centre in Ashgabat (Turkmenistan), Programme Offices in Astana (Kazakhstan), Bishkek (Kyrgyzstan), and Dushanbe (Tajikistan), and an OSCE Project Co-ordinator in Tashkent (Uzbekistan). The mandates for the respective operations all include economic activities. For example, the mandate of the Centre in Ashgabat places 'special emphasis on the regional context, in all OSCE dimensions, including the economic, environmental... aspects of security and stability'.⁴²

Trade facilitation is a major aspect of OSCE economic activities in Central Asia. Through a combination of support for the management of free economic zones, harmonisation of customs regulations, and training for entrepreneurs, both on a national and regional level, the OSCE has played an important role in enhancing economic development in individual countries in the region and promoting higher levels of connectivity between them. This has also included projects to promote organic agriculture, improved transportation infrastructure, and sustainable water management. Different OSCE presences in the region co-operate with each other on a number of these issues.

Other actors promoting economic connectivity in Central Asia include the GIZ, the World Bank, and UNDP. Their priorities often overlap with those of the OSCE, including in relation to regional trade facilitation and sustainable water and energy management. For example, GIZ has



A participant in a three-day workshop on Operating Joint Border Crossing Points is awarded a certificate of attendance, Dushanbe, 26 June 2018. (Credits: OSCE/Munira Shoinbekova)

implemented a multi-annual programme to support regional trade in Central Asia, including a focus on improved transport infrastructure and the elimination of non-tariff trade barriers.⁴³ UNDP has identified 'increased regional co-operation to enhance connectivity and legal movement of people, goods and services and to manage transboundary water resources more effectively' in its country strategy for Tajikistan,⁴⁴ and focuses on 'the nexus of inclusive and sustainable development, governance, and regional co-operation' in its country programme for Kazakhstan.⁴⁵

The World Bank has also been engaged in a number of projects enhancing economic connectivity. These are embedded in a broader approach to fostering regional integration across a range of dimensions from water and energy, to trade facilitation and to digitalisation.

The Central Asia Energy-Water Development Program (CAEWDP), while led by the World Bank, is a multi-lateral effort. It is a partnership between the World Bank and the European Commission, Switzerland, the United Kingdom, and the United States, collaborating with the OSCE, European Investment Bank, Asian Development Bank, and GIZ. Among the important lessons from the results achieved so far is the fact that relatively modest investment from international development partners (in this case, \$3.7 million) can play a catalytic role in leveraging large-scale government and private-sector investment (\$1.5 billion). Moreover, project success is both dependent on, and contributes to, global knowledge and best

practice, facilitated through the World Bank.⁴⁶

The development of the Central Asia South Asia Regional Electricity Market is a World Bank-led project focused on institutional arrangements and infrastructure to link Central Asia's surplus energy resources with South Asia's energy shortages and growing demand. Connected to CAEWDP and facilitating the establishment of such a regional energy market, the Central Asia South Asia Electricity Transmission and Trade Project has been running since 2014 in co-operation with the Islamic Development Bank, USAID, the European Bank for Reconstruction and Development, the European Investment Bank, and the UK Department for International Development.⁴⁷ In September 2018, it reached another major milestone by finalising the contract for the construction of the High Voltage Direct Current power converter stations that will form the backbone of a new cross-border energy market.⁴⁸

Trade facilitation has been closely connected to improving road infrastructure. This has included closer co-operation with the Central Asia Regional Economic Co-operation programme, especially the development of road links in the context of the six strategic transport corridors across the region. World Bank investment in the so-called Central Asia Regional Links programme was prompted by an initiative from governments of countries in the region and has been executed sequentially, beginning in Kyrgyzstan⁴⁹ and now also including Tajikistan.⁵⁰ The completion of the first two

phases of the programme will have restored critical road infrastructure networks linking Kyrgyzstan, Tajikistan and Uzbekistan in the Ferghana Valley.

In terms of digital connectivity, a similar cross-regional project, Digital CASA, has been developed and implemented since 2016.⁵¹ It focuses on the development of a regionally integrated digital infrastructure, a supportive regulatory and institutional framework, lower cost and higher quality of internet access, and leveraging private sector investments in network infrastructure at both regional and national levels. Similar to projects aimed at energy connectivity and trade facilitation, the approach taken here is to achieve regional and cross-regional connectivity through a focus on national stakeholder needs and interests. This respects different national contexts without entrenching or increasing regional fragmentation.



Participants during the OSCE-organised seminar on the potential of labour migration for the economic development of Turkmenistan, 29 August 2018. (Credits: OSCE)

South Caucasus

Economic connectivity in the South Caucasus is fundamentally shaped by the geopolitical realities of the region's protracted conflicts and the complex relationships between the three countries there and their respective international partners. Tensions in certain areas of the South Caucasus have remained unresolved for over a quarter of a century and continue to pose a critical threat to the region's overall security and stability. They have also drawn in Russia, Turkey and Iran, whose own relationships with each other and with the countries in the region have both created opportunities and imposed constraints on economic diplomacy and the prospects for enhanced economic connectivity.

As a cross-continental land bridge, the South Caucasus connects the Caspian and Black Seas, and thus by extension Central Asia and Europe, along its east-west axis.

This includes the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) natural gas pipeline, which play an important role in efforts by the EU to diversify its energy supply while also providing a major source for Georgian energy imports. Over the past several years, the significance of the South Caucasus has further increased with the ongoing development of the Southern Energy Corridor, which connects the South Caucasus Pipeline (Azerbaijan-Georgia) with the Trans-Anatolian Pipeline (across Turkey) and the Trans-Adriatic Pipeline (Greece-Albania-Italy). While the origins of these energy pipelines date back to the 1990s, east-west railway connectivity took many more years to develop but received a major boost in 2016 with the opening of the 850km-long Baku-Tbilisi-Kars railway with an annual capacity of 5 million tons of freight and 1 million passengers. This railway line links in well with China's Belt and Road Initiative and is one indication that the importance of the South Caucasus for economic connectivity on a much larger scale is likely to increase further in the future.

North-south connectivity across the South Caucasus, potentially linking Russia to Iran, has developed much more slowly.

The project of an International North-South Transport Corridor, which would connect Russia, Azerbaijan, Iran and India via road, rail and sea, remains behind schedule, while efforts to connect Armenia, Georgia and Russia are hampered by poor relations



Representatives from government structures, parliament, the private sector and experts in the field discuss cyber security regulatory frameworks at an OSCE-supported conference, Yerevan, 23 March 2016. (Credits: OSCE/Gayane Ter-Stepanyan)

between the latter two. More progress has been made on energy connectivity, however. Already in 2016, Iran, Armenia, Georgia and Russia agreed on a road map for a North-South Energy Corridor to connect their electricity grids and foster electricity trading among themselves, which is due to be operational by the summer of 2019.

The constraints for enhanced economic connectivity within and across the South Caucasus are both political and financial.

Among the main political problems are the blocked land connections between Azerbaijan and Armenia and between Armenia and Turkey (forcing road and rail transport as well as pipelines to be routed through Georgia) and difficult relations between Russia and Georgia, which have, so far, prevented the opening of a transport corridor through South Ossetia and the Roki Tunnel (see page 21). Moreover, relations between Azerbaijan and Iran have also not been easy, which has limited the use of an existing road connection from Iran to the Russian North Caucasus along the shores of the Caspian Sea. In addition, sanctions against Russia and the restoration of US sanctions against Iran are also likely to affect future economic connectivity — facilitating further already strong east-west connections while limiting the possibilities for north-south developments.⁵²

The other impediment to economic connectivity is the cost of building, enhancing and maintaining its necessary physical infrastructure. This accounts both for delays in existing projects and for some projects remaining on paper, such as a railway connection between Armenia and Iran. The continuing inability of the countries in the region, and of their major international partners, to resolve long-standing conflicts acts as

a major break on substantial and sustained investment that would be needed in order to realise the opportunities that greater economic connectivity offers to the region.

Regional and geopolitical dynamics are also reflected in the nature of international involvement in enhancing economic connectivity in the South Caucasus.

The OSCE, once a significant presence in the region with a wide range of activities, no longer has any field operations there, after the mandates for its Mission in Georgia and its Offices in Baku and Yerevan were not renewed in 2008, 2015 and 2017, respectively.⁵³ The EU and the World Bank remain involved in the region, however. The EU, for example, provides significant support through its Eastern Partnership Territorial Co-operation programmes. Projects here are aimed, among other things, at promoting cross-border co-operation between Georgia and Armenia and between Georgia and Azerbaijan.⁵⁴ The World Bank has worked primarily on an in-country basis and supported the rehabilitation of the East-West Railway Corridor in Azerbaijan and the East-West Highway Corridor Improvement Project in Georgia.⁵⁵ Thus, the nature of the EU's and World Bank's engagement, too, reflects the regional and geopolitical dynamics of the region.



Vakhtang Kordzakhia, an-OSCE supported expert, sharing information on customs clearance procedures in Georgia, Astana, 8 November 2017. (Credits: OSCE/Aigul Zharas)

Western Balkans

Many regional and international organisations continue to be active across the Western Balkans. Given the violent conflicts in the former Yugoslavia in the 1990s and early 2000s and the continuing instability and volatility of the region, as well as its strategic location, this is hardly surprising. Nor is the fact that the main objective underpinning regional and international organisations' engagement with the Western Balkans is 'to strengthen the good-neighbourly relations among all states in this region, for transforming this region into an area of peace, security, stability and co-operation'⁵⁶ and to support regional and bilateral initiatives to this effect.

The OSCE has engaged with the Western Balkans for more than two decades.

The Organization currently has a Presence in Albania and field missions in Bosnia and Herzegovina, Kosovo* and Serbia, Montenegro, and Skopje. Their activities are primarily focused on the first (politico-military) and third (human) dimension, with comparatively fewer environmental projects⁵⁷ and good governance activities that relate to economic governance.⁵⁸

Projects aimed at enhancing economic connectivity have been implemented by a variety of regional and international organisations. Among them are the World

Bank and the EBRD. In addition, individual countries have worked on a bilateral level on economic connectivity projects in the region. In the wake of the violent disintegration of the former Yugoslavia, one particular focus has been on stabilisation in the region. Part of this broader international effort has been the restoration of trade links across the region and its closer integration with the EU economic space.

Since 2017, the World Bank has been working on the Western Balkans Trade and Transport Facilitation Project. Recognising that the main obstacle to trade among the six countries in the region and between them and the European Union are not tariff-related, the Bank has focused on 'support[ing] Western Balkan governments to promote deeper economic integration within the region and the EU by assisting with the implementation of measures aiming at (1) facilitating cross-border movement of goods, (2) enhancing transport efficiency and predictability, and (3) enhancing market access for trade in services and investments.'⁵⁹

The EBRD has been instrumental in establishing the Western Balkans Six (WB6) regional co-operation format.⁶⁰ It has hosted the biennial Western Balkans Investment Summits since 2014 and includes 'furthering the connectivity agenda' among its three core objectives. This, in turn, is closely linked to a conception of connectivity that embraces the

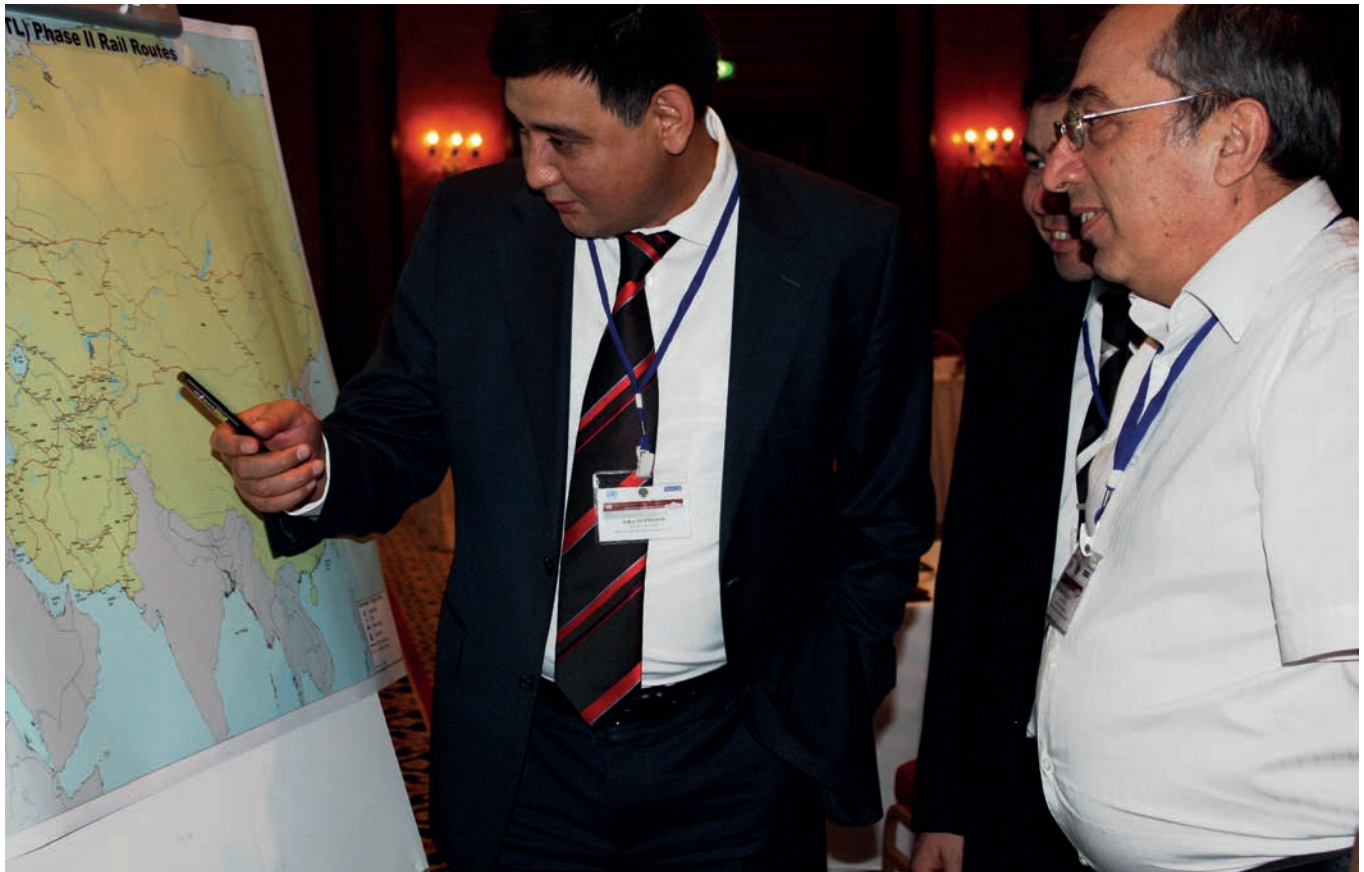
notion of 'soft connectivity' where the EBRD has promoted 'creating a single investment space, which includes harmonisation of legislation, removal of non-tariff barriers, improving both the depth and horizontal links of capital markets, strengthening the business environment in the region, and facilitating foreign investment.'⁶¹

The most consistent champion of enhanced connectivity at the regional and cross-regional level in the Western Balkans has been the European Union. This is partly driven by the Union's enlargement perspective for the WB6,⁶² but also recognises the strategic importance of the region as a connector to energy networks, such as the Southern Energy Corridor (see page 16), and its significance as a transport corridor in the context of China's Belt and Road Initiative. In implementing projects aimed at enhancing economic connectivity, the EU works simultaneously at the national and regional level and co-operates closely with a range of other relevant actors to ensure sufficient financing and sustainable and inclusive economic development.

The EU's Connectivity Agenda for the Western Balkans has its origins in the Berlin Process in 2014.⁶³ Since then, the EU and the WB6 have explicitly recognised that well-connected networks of transport



Participants at the OSCE-supported 'Women's Entrepreneurship Fair', Sarajevo, Bosnia and Herzegovina, 17 October 2018. (Credits: OSCE/Vedran Pribilovic)



Participants at an OSCE-supported workshop discuss maps of Euro-Asian transport links, Almaty, 5 July 2011. (Credits: OSCE/Zarina Ligay)

and energy not only drive economic growth and jobs but also make economic growth sustainable by attracting investments and contributing to good neighbourly relations.⁶⁴ It focuses on improved intra-regional connectivity and connectivity between the Western Balkans region and the EU, supporting the process with up to €1 billion in EU grants until 2020, of which 70% has been committed to date. This has given 'concrete grant support for 31 infrastructure projects in the region', generated 'an additional around €2.4 billion in investments, creating around 25,000 jobs in the process.'⁶⁵

Within the broader Connectivity Agenda for the Western Balkans, the Digital Agenda has five specific objectives. These five objectives include lowering the cost of roaming, deploying broadband, developing a wide range of public e-services, capacity building in trust and security, and, with a particular view to the accession perspective, adopting, implementing and enforcing the *acquis communautaire* in the area of the digital single market. Achieving these objectives will be financed through the Instrument for Pre-accession Assistance (an EU-only means to support reform in enlargement countries) and the Western Balkan Investment Framework, which 'co-ordinates the preparation and selection of priority projects for financing

by blending grants from the European Commission's Instrument for Pre-Accession (IPA) and 20 bilateral donors with loans from participating financial institutions and national finance.'⁶⁶ While the EU clearly has a lead role on the Digital Agenda, its multilateral implementation arrangements highlight the importance of donor co-ordination and complementarity, including the provision of expertise and finance. Equally significant is local stakeholder support, which happens in the context of the South-East European Co-operation Process and the associated Regional Co-operation Council.

It is equally important to recognise that enhancing connectivity has also been facilitated at a bilateral level across the Western Balkans. Individual countries have worked in partnership on overcoming political obstacles to economic connectivity through a pragmatic approach that accepts an existing political stalemate without being paralysed by it. Recognising the negative impact that a lack of trade, for example, has on economic growth and development, as well as on the daily lives of people, unique and innovative solutions have emerged in specific cases. These might not be transferable across cases as such, but they indicate that political deadlock need not impede economic relations.

In 1995, Athens and Skopje reached an Interim Accord on the name dispute between them and subsequently also signed a Memorandum on Practical Measures. These agreements effectively ended a 19-month embargo imposed by Greece. Almost immediately afterwards, the movement of persons and goods across the common frontier resumed. Another accord subsequently provided for additional steps restoring railways, civil aviation and air traffic, and telecommunications.⁶⁷ Following an agreement between the two states in June 2018 on the settlement of the name dispute, there is now significant potential for a full normalisation of relations.⁶⁸

In 2011, Belgrade and Pristina agreed on the wording for the Kosovo* customs stamp. One of the technical agreements in the EU-facilitated Dialogue, the acceptance by Serbia of the wording 'Kosovo Customs' and the fact that Kosovo* stopped insisting on the inclusion of certain insignia paved the way for the resumption of trade between the two sides. In addition, Belgrade and Pristina have also begun to operate an integrated border management regime.⁶⁹

Economic Diplomacy and Connectivity in the Context of Protracted Conflicts

Cyprus

The current division of Cyprus has its origins in the failure of the island's two main groups — Greek and Turkish Cypriots — to live peacefully side-by-side in a bi-communal state following independence from Britain in 1960. The division was cemented territorially in 1974 and the UN buffer zone — the so-called Green Line — remained closed until 2003 when it was opened for crossings as a gesture of goodwill between the two communities. With the accession of the internationally recognised Republic of Cyprus to the EU in 2004, a unique geopolitical situation arose: while the entire island is considered EU territory, the northern part is exempt from EU law because it remains beyond the control of the Greek Cypriot-led Republic of Cyprus.

The OSCE has supported conflict settlement efforts on the island over the years with a number of activities promoting confidence building between the two main communities. For example, in March 2017, the Office of the OSCE Representative on Freedom of the Media launched the Cyprus Dialogue project, which brings together the Greek Cypriot and the Turkish Cypriot journalists' unions and journalistic communities to work together on the promotion of quality journalism on the island. In July 2016, an international jury, led by the then OSCE High Commissioner on National Minorities, Astrid Thors, selected the Association for Historical Dialogue and Research (AHDR) as recipient of the Max van der Stoep Award, recognising the Cyprus-based NGO's contribution to promoting diversity and dialogue in education and public discourse.⁷⁰

There is little doubt that increasing economic connectivity between the two communities in Cyprus will enhance economic growth and development. For example, sectors like tourism, construction, trade, or higher education, which currently exist separately on both sides of the Green Line would likely see a significant boost.⁷¹ Put differently, there are tangible and predictable benefits that should incentivise both communities to look beyond their political differences.

While there has been no political breakthrough to date in the efforts to reunite the island, progress has been made in relation to higher levels of economic connectivity. The two main external actors in this respect have been UNDP, which has been involved in supporting and implementing economic connectivity projects since the 1970s, and the EU, which has become particularly active since the accession of the Republic of Cyprus in 2004.

One of the long-standing and most successful examples of economic co-operation between the two communities concerns wastewater management in Nicosia. Co-operation in this area dates back to the 1960s and continued after the partition of the island, when UNDP, with funding provided by the World Bank, implemented a project for the construction of a sewage plant to serve both communities in the divided city between 1978 and 1981. The plant, constructed in the early 1980s, however, began to suffer capacity issues from the early 2000s onwards. This created an opportunity for another UNDP-implemented follow-up project to build a common Wastewater Treatment Plant (2010–14), co-funded by the Sewerage Board of Nicosia and the EU.⁷²

Another dimension of economic connectivity attended to by UNDP and its partners is the removal of physical barriers to economic connectivity. In the context of Cyprus, this has been relevant in relation to landmine and ordnance clearance and the improvement and restoration of physical infrastructure connecting the two communities. Between 2004 and 2011, UNDP, together with the United Nations Peacekeeping Force in Cyprus, the United Nations Office for Project Services, the UN Mine Action Centre, and the European Commission, implemented a project to reduce the number of landmines in the so-called buffer zone in order to facilitate safer inter-community movement and restore access to agricultural land. As a result of the project, over 27,000 land mines were cleared, resulting in 81 former minefields being declared mine-free and almost 11 million square meters of land being returned to civilian use.⁷³ Of similar importance were infrastructure rehabilitation projects facilitating the re-opening of crossing points across the Green Line. UNDP, for example, co-ordinated the redevelopment of the road between Kato Pyrgos and Limnitis/Yeşilirmak along the seventh crossing on the island, which was funded jointly by the Government of Cyprus, the EU and USAID.



Staff of the Association for Historical Dialogue and Research, winners of the 2016 Max van der Stoep award, at the Home for Co-operation in Cyprus, September 2016. (Credits: OSCE/Stefan Heger)

Following the accession of the Republic of Cyprus to the EU in 2004 as a de-facto divided island, the EU took a leading role in promoting a settlement of the conflict on the island. One of the three main goals of the Aid Programme for the Turkish Cypriot Community, established in 2006, is support for the economic integration of the island.⁷⁴ In the first decade of its implementation, the EU spent almost €450 million on a wide range of projects, including telecommunications; road traffic safety; wastewater treatment plants in Nicosia, Mia Milia/Haspolat, and Morphou/Güzelyurt; and business support technical assistance.⁷⁵

Another major EU initiative promoting economic connectivity on the divided island has been the implementation of the so-called Green Line Regulation (GLR) since 2004. The GLR sets the terms under which EU law and the free movement of people and goods, apply to the 'Green Line' that separates the two communities on the island, with the express goal 'to facilitate trade and other links' between the communities.⁷⁶

Because of the unique political context under which the EU operates in Cyprus, the GLR had to deviate considerably from a typical trade instrument of the EU, including in relation to implementing actors on the Turkish Cypriot side. The main issue here, as in other protracted conflict situations, was one of political status and the fact that the government of the Republic of Cyprus opposed any links between international actors, including the EU, with authorities on the Turkish Cypriot side, arguing that this would facilitate recognition by implication. In order to resolve this impasse, the Turkish Cypriot Chamber of Commerce undertook tasks required for the successful implementation of the GLR, such as issuing the necessary accompanying documents for the goods traded.

Overall, the GLR has been a significant success in promoting economic connectivity, albeit not an unqualified one. On the one hand, the application of the GLR has been a success: in the first year of its operation, the total value of goods crossing the Green Line was €818,133;⁷⁷ by 2016, this had increased to €5,017,714.⁷⁸ On the other hand, problems identified in the first report in 2005 were still largely the same as those noted in the 13th report in 2017. For example, according to the European Commission,

'the issue of Turkish Cypriot commercial vehicles crossing to the government-controlled areas is still not resolved and, to date, no Turkish Cypriot commercial vehicles above 7.5 tonnes can cross the Line unless they have fully *acquis*-compliant documents issued by the Republic of Cyprus.'⁷⁹ Another long-standing problem is the fact that, contrary to the GLR, 'the authorities of the Republic of Cyprus still do not allow the crossing of processed food products due to concerns raised by health services regarding the production process in the northern part of Cyprus.'⁸⁰

Georgia

Protracted conflicts in Georgia's regions of Abkhazia and South Ossetia date back to the early 1990s and the aftermath of the dissolution of the Soviet Union. Ceasefires, mediated by Russia, remained largely intact despite occasional breaches until 2008 when local fighting quickly escalated and prompted a Russian military response that was followed by the recognition of Abkhazia's and South Ossetia's independence by Moscow, as well as by four other UN member states.⁸¹

Prior to 2008, and since, economic diplomacy and connectivity were a major focus of a range of international actors in Georgia intent on managing both protracted conflicts. Among them, the EU and UN funded several projects on enhancing and sustaining trade relations

between Georgia and the two entities, as did bilateral donors such as the UK and Switzerland.

An OSCE Mission in Georgia was established in November 1992 and remained operational until the end of December 2008 when another extension of its mandate could not be secured. During this time, the Organization was mainly focused on an expanding list of activities related to conflict settlement, as well as support for democratisation, human rights, border monitoring, and the rule of law.⁸² This included several projects in the second dimension, notably the Economic Rehabilitation Programme (ERP, 2005–08) and its brief successor, the Transitional Economic Rehabilitation Programme (TERP, 2008).

The ERP started with a needs assessment in 2005, which generated a list of priority projects in the area of socio-economic infrastructure rehabilitation in the Georgian-South Ossetian conflict zone and its surrounding areas. This was followed by an international donor conference in June 2006, hosted by the then Belgian OSCE Chairmanship, which resulted in close to €8 million in pledges from 21 donors, with the EU alone committing €2 million. The ERP was then officially launched in October 2006 at the first meeting of its Steering Committee which took place in the Tskhinvali branch office.⁸³ Projects subsequently implemented until 2008 were focused on three main areas: business skills training, agricultural



The OSCE is examining ways of enhancing container security in order to prevent terrorists exploiting this means of transport. (Credits: OSCE)

development and infrastructure rehabilitation. This approach, including the use of the OSCE Mission's local branch in Tskhinvali to administer the ERP, was considered 'to benefit directly and bring together communities, and encourage the sides to take decisions together on issues relating to the programme', thereby contributing to broader confidence building.⁸⁴

The subsequent, short-lived TERP was set up in response to the 2008 conflict as an interim solution to continue economic rehabilitation in areas that had remained accessible. Building on the positive experiences with the ERP and the relationships established on the ground and with international donors, the TERP was 'able to quickly deliver well-designed assistance to communities' and 'to help small-holdings re-build what had been... lost' as a result of the fighting in August 2008.⁸⁵ These initiatives, as an OSCE-led project, however, came to an abrupt end when the mandate of the OSCE Mission was not renewed after 2008.

Neither before nor after 2008 was the OSCE the only actor in Georgia supporting economic connectivity. While the OSCE was the lead-actor in relation to South Ossetia, the UN, through its Observer Mission in Georgia (UNOMIG), took a similar role in the case of Abkhazia. While UNOMIG's mandate was initially, and generally remained, focused on security aspects, the UN did carry out a similar co-ordination task among international donors and their implementing partners. Among them, the European Union remained the largest donor, providing technical assistance and project support for initiatives aimed at alleviating human suffering as a consequence of the conflict, promoting economic rehabilitation, and facilitating dialogue between the conflict parties.⁸⁶

Following the fighting in 2008, the need for enhanced economic connectivity in Georgia's conflict zones has not diminished. Gradually, new opportunities have been created by a mix of local and international actors, including in the context of the Geneva International Discussions, co-chaired by the EU, the OSCE, and the United Nations. In the context of these discussions, the OSCE has implemented a number of concrete projects to reconnect communities on both sides of the administrative boundary line, including a dam safety project in Zonkari, a drinking water project in Znauri, and an irrigation project in Nikosi.⁸⁷



Workers from Ossetian contractor Bessarion carry out urgent renovations to a school in Dzari in the north of the Georgian-Ossetian zone of conflict – one of many projects by the OSCE Mission to Georgia-led Economic Rehabilitation Programme. (Credits: OSCE/David Khizanishvili)

Three recent initiatives are of particular note as they speak directly to the potential of economic diplomacy and economic connectivity as contributing to stabilisation, tension reduction, and confidence building. These are the Georgian government's 'A Step to a Better Future' initiative, the Swiss-mediated efforts to open up a trade corridor between Georgia and Russia through South Ossetia's Roki tunnel, and tentative explorations to extend the application of the DCFTA between Georgia and the EU to Abkhazia.

On 4 April 2018, the Georgian government officially launched its new peace initiative 'A Step to a Better Future' aimed at the breakaway regions of Abkhazia and Tskhinvali region/South Ossetia. This peace initiative is effectively comprised of two policy documents, one concerning the facilitation of trade across disputed boundaries and the other focusing on enhancing education opportunities for the residents of Abkhazia and South Ossetia. Although not explicitly referred to in the Better Future initiative, its trade facilitation element is potentially closely connected to the reopening of the Roki tunnel and the possible application of the DCFTA to Abkhazia, but it also has a number of potential more local implications, including the possibility of creating 'special economic spaces' around Rukhi (near Abkhazia) and Ergneti (near South Ossetia).⁸⁸

Swiss-mediated efforts to open up a trade corridor between Georgia and Russia through South Ossetia have their origins in the 2011 customs agreement between Georgia and Russia that later paved the way for the Russian Federation to join the World Trade Organization. Negotiations between the two sides were stalled until a November 2016 landslide blocked the Kazbegi-Upper Lars

mountain pass as the only other transport route between Russia and Georgia (and much of the South Caucasus, including Armenia). A month-long closure had a significant negative impact on the private sector, and after some lobbying, Moscow and Tbilisi restarted talks in February 2017. With further Swiss mediation, a private company, Société Générale de Surveillance (SGS), was appointed to carry out the official duties as envisaged by the initial 2011 agreement, and both Georgia and Russia have now signed separate contracts with SGS. While issues affecting the status of South Ossetia, especially related to customs and passport controls, remain unresolved and currently block the opening of the corridor, there are indications that another emergency situation like the 2016 landslide could lead to the activation of the corridor under a temporary passport and customs regime which 'might open the door to more permanent arrangements'.⁸⁹

Efforts to extend the application of Georgia's DCFTA with the EU to Abkhazia are in a less advanced state. Similar to the issues surrounding the opening of the trade corridor through South Ossetia, these efforts are primarily blocked by political status issues. With no formal negotiations underway and track-two initiatives at present underdeveloped in this space, there appears to be little likelihood of progress in the near future. This is the case because businesses on both sides of the divide place a high premium on the legality of any economic engagement. For Abkhaz entrepreneurs this raises issues concerning their ability to 'register' in Georgia and the unpredictability of any Russian reaction, while their Georgian counterparts are concerned about the Abkhaz business environment that they consider 'criminalised, unstable, and high-risk'.⁹⁰

Moldova

The conflict in the Transnistrian region of Moldova in 1992 led to the establishment of the unrecognised Predniestrobian Moldavian Republic, which remains beyond the effective control of the Government of Moldova to this day. The Russian-mediated ceasefire that ended the violence on the ground has remained very stable and relations between the Moldovan government and the authorities on the left bank of the River Nistru/Dniester have generally improved over the years. While many agreements have been concluded between the sides on specific issues, often mediated by the OSCE, no significant progress has been made towards an overall settlement of the conflict.⁹¹

Established in 1993, the OSCE Mission to Moldova was tasked 'to facilitate the achievement of a lasting comprehensive political settlement, on the basis of CSCE principles and commitments, of the conflict in the Left-Bank Dniester areas of the Republic of Moldova in all its aspects.'⁹² While this mandate does not specifically cover activities in the Second Dimension of the OSCE, over the years the Mission has contributed significantly to facilitating projects that have enhanced economic connectivity between communities and businesses on both sides of the River Nistru/Dniester.

In the course of the settlement process, the conflict parties committed themselves on multiple occasions to activities that

would result in greater levels of economic connectivity. For example, in the 1998 Agreement on Confidence-building Measures, they noted their readiness to 'establish joint programs to support investment projects, to reconstruct industrial enterprises, electric power objects, to liquidate the consequences of natural calamities and to protect the environment.'⁹³ Yet, this and other joint declarations and statements of the leaders of both sides are largely declarative and very general in nature and have seen little, if any, concrete follow-up.

Where concrete commitments were made to enhancing economic connectivity between the two banks of the river, implementation has often been delayed for many years. For example, a commitment in 1998 to 'create the necessary conditions for carrying out reconstruction and the earliest bringing into operation of the vehicular bridge in the area of the settlement of Gura Bicului'⁹⁴ had progressed over the following two decades to the point where the sides still only had reached the point to discuss 'the conduct of the technical assessment of the Gura Bicului–Bychok bridge with the goal to achieve its full operation and functionality.'⁹⁵ Other issues that faced similar delays over the years have included the question of 'launching of the mechanism of participation of vehicles from Transnistria in the international road traffic' and 'a concrete roadmap for the fulfilment of the agreement on organising interaction in the field of telecommunications'.⁹⁶

In other areas, less closely tied to the settlement process and thus not as sensitive to status issues, more progress has been achieved. Beginning in 2009, UNDP has implemented four phases of an EU-funded programme of confidence-building measures. While more broadly focused, activities with the effect of enhancing economic connectivity were a central pillar of the programme and had significant success.⁹⁷ For example, Phase III resulted in, '61 cross-river business exchanges established, offering improved economic opportunities to the population on both banks of the River; and more than 1,500 permanent, part-time and temporary jobs created.'⁹⁸

In addition, there are areas in which private and public economic interests proved stronger than political status obstacles. For example, throughout the period after 1992, Moldova and Transnistria managed to find common ground when it came to operating the country's largest power plant – the Cuciurgan power plant in the Transnistrian region – which still supplies around 70% of Moldova's electricity needs⁹⁹ and at the same time contributes around \$100 million to Transnistria's budget.¹⁰⁰ More generally, despite the unresolved conflict, right-bank Moldova has remained the main destination of goods from the Transnistrian region, with the latest figures indicating that just under 30% of all goods by value are destined for that market, making it the largest single destination and second overall behind exports to the EU single market.¹⁰¹

The European Union Border Assistance Mission to Moldova and Ukraine (EUBAM), established in 2005, has also made a significant contribution to enhancing economic connectivity. In a 2015 Addendum to the original 2005 Memorandum of Understanding between the EU, Moldova, and Ukraine, the Mission's conflict settlement objective was substantially expanded and refined, stressing that the Mission was '[t]o contribute to the settlement of the Transnistrian conflict by, *inter alia*, strengthening the border management and customs regime, and confidence-building measures, thus favouring interaction and exchanges between the two banks of the Nistru/Dniester river and contributing to reducing possible security threats.'¹⁰²



The historic decision to open the Gura Bicului–Bychok Bridge on 18 November 2017 symbolises a breakthrough in the Transnistrian settlement process. It led to the signing by the sides of five additional agreements in the end of 2017 and spring of 2018. (Credits: OSCE/Igor Schimbator)



Franco Frattini, the Special Representative of the OSCE Chairperson-in-Office for the Transdniestrian Settlement Process, hands over the first Moldovan neutral-design licence plates at a Vehicle Registration Office (VRO) in Tiraspol, 10 September 2018. (Credits: OSCE/Igor Schimbator)

EUBAM has, since then, also contributed to supporting 'the smooth implementation of border customs-related aspects of the Association Agreements', including the DCFTAs.¹⁰³ As part of this effort, the Mission set up a Trade Facilitation Working Group in 2015, which 'acts as a platform for communications and co-operation between Moldovan and Ukrainian Customs, national and provincial government agencies, business and key development partners including USAID, the American Chamber of Commerce, the European Business Association and the Odesa Business Forum.'¹⁰⁴ While 'focused on implementation of legislative and procedural measures necessary to fulfil commitments of both countries under AA/DCFTA and Customs Chapters of the WTO Agreement', the Working Group was also instrumental in developing and sustaining public-private co-operation in trade facilitation.

The most significant enhancement of economic connectivity across the River Nistru/Dniester has undoubtedly been the extension of the application of the DCFTA between Moldova and the EU to Transdniestria. Almost universally hailed as a success, this is a clear example of economic connectivity contributing to the OSCE's core security mandate by bringing communities on both sides closer together and reducing the likelihood of future conflict.¹⁰⁵ It is also a case that demonstrates the tangible benefits of increased connectivity: the EU's single market is now the third-largest trading partner overall by value of goods for Transdniestrian companies after the EEU and Ukraine, currently accounting for just over 22% of all trade, and by far the largest destination of exports with just over 35%.¹⁰⁶

A Role for the OSCE?

Conclusions and Recommendations

Economic Diplomacy and Connectivity across the OSCE Area: Drivers and Factors of Success

Enhancing economic connectivity is not an exclusively market-driven or value-free agenda. Rather, it promotes an environment in which economic drivers are not left unchecked but where the opportunities they create are balanced by fundamental principles of good governance that include transparent, accountable, and efficient rules; are developed in a context of regulations and standards that promote healthy competition and fair interoperability of economic networks; and where the values of inclusive economic growth and equitable development are promoted.

Connectivity cannot exist in a vacuum and requires physical and virtual connections and interconnections. These are provided by roads and railways; airports and seaports; (integrated) border management structures; energy infrastructure; and ICT and infrastructure, including cyber space. These assets, however, can only reach their full potential for enhancing economic connectivity in the context of regulatory environment that facilitates cross-national harmonisation and provides for their safe and efficient utilisation.

In a field with many specialised actors with at times incompatible interests and conflicting agendas, what role can the OSCE play to facilitate economic diplomacy and enhance economic connectivity? The answer to this question needs to begin with a consideration of the lessons that can be learned from past experiences of the Organization itself, as well as its participating States and other relevant actors.

The OSCE is at heart a security organisation. At its founding, participating States expressed their 'political will, in the interest of peoples, to improve and intensify their relations and to contribute in Europe to peace, security, justice and co-operation'.¹⁰⁷ Security, especially when conceived broadly as human security, is relevant across all three dimensions of the Organization. Economic diplomacy and connectivity, thus, can play an important role fulfilling the OSCE's mandate.

The OSCE is uniquely placed to facilitate economic diplomacy and enhance economic connectivity among participating States. With 57 participating States, and 11 Partners for Co-operation in Asia and in the Mediterranean, the Organisation also has a local presence across currently 16 sites and thus unrivalled opportunities to achieve local impact, including in co-operation with other regional and international partner organisations. On its own, the OSCE region 'accounts for over half of global trade', and together with partner countries and China, 'it accounts for well over 70% of global trade'.¹⁰⁸

Positive examples of economic diplomacy and connectivity exist at all levels of the OSCE. They do not only render important economic benefits but often also have political effects by demonstrating the possibility of co-operation in one area while there might be unresolved issues in other areas. Economic diplomacy and connectivity also create opportunities for actors from the private sector to co-operate across disputed internal boundaries and maintain contacts when dialogue between political elites is difficult or outright impossible. Economic connectivity

can thus also sustain and improve livelihoods of people effected by political conflicts.

Different sectors of the economy have different potential for connectivity. Trade, energy, and digitalisation are the most prominent areas in which participating States are already highly connected, but additional potential exists. Whether this potential can be achieved depends, among others, on the expansion and maintenance of physical infrastructure, the further harmonisation of standards and legal and regulatory frameworks, and the reduction of tariff and non-tariff barriers.

Political will is a crucial factor in enhancing economic connectivity across the OSCE region. With the right political will, economic diplomacy can be deployed to enhance economic connectivity between participating States at a bilateral level, within and across OSCE sub-regions, as well as within countries affected by protracted conflicts. Yet, even where economic connectivity increases locally or sub-regionally, there is a danger that it may also result in deepening divisions — politically and economically — between larger blocs of countries within the OSCE.

Economic connectivity also becomes sustainable when it is underpinned by a permissive and enabling institutional context. Sub-regional arrangements have existed within the OSCE for a long time, and while their origin may be in specific local needs, their experiences can often be replicated elsewhere. But institutional contexts can only play a facilitating role, a political vision and ownership of a sub-regional initiative is often critical in structuring sub-regional

economic activities across time and space, mobilising financing, and monitoring progress against jointly agreed objectives.

Sustainable financing of connectivity projects is critical to their success.

Across the OSCE area this is often achieved by multiple donor agencies and financial institutions co-operating, frequently with additional support from private sector investors and national governments. This can increase the co-ordination challenges across different connectivity projects and underlines the importance of having both lead organisations in place as well as institutions that can facilitate co-ordination among donors, between donors and implementing organisations, and close co-operation with national governments. What is also essential in this context is that senior levels within national governments ensure communication and co-ordination of economic connectivity projects throughout their organisations at all levels that are critical for implementation.

Projects aimed at enhancing economic connectivity are particularly effective if they are driven by local needs.

This often requires comprehensive participatory needs assessments and the determination of priorities. Such assessments, as well as subsequent programme design and project selection, must also involve capable implementing partners on the ground. Especially in regional and cross-regional contexts of efforts to enhance economic connectivity successful implementation is also more likely when implementing organisations are locally embedded and combine technical expertise with political neutrality.



Lidia Ababii, Chief Inspector of the Customs Service of Moldova, reading the OSCE publication 'Handbook of Best Practices at Border Crossings', Dushanbe, 1 November 2013. (Credits: OSCE/Illona Kazaryan)

Economic Diplomacy and Connectivity: A Future Perspective for the OSCE

The OSCE has a demonstrated capacity to adapt to a challenging world. Today's challenges lie across all three dimensions of the OSCE. Because of the multi-dimensional nature of economic connectivity and its links to political and legal frameworks, and to aspects of human security, the second dimension offers an untapped potential to contribute to solutions to many of the problems that participating States face, including by providing a bridge across to the other two dimensions, between different OSCE regions and the participating States there, between citizens and governments, and between the public, private and third sectors.

The OSCE can play a critical role in generating and consolidating knowledge about connectivity. The OSCE should endeavour to become an even more comprehensive knowledge broker. Based on its unique convening and agenda-setting power in the Eurasian and Euro-Atlantic area, the Organization already provides a forum for debate and the dissemination of ideas. It can further use these capabilities and enhance its capacity to educate (for example, in the context of the OSCE Academy or a similar institution) and to provide a platform that synthesises knowledge on economic connectivity and acts as a clearing house for projects aimed at enhancing economic connectivity across its participating States and other relevant actors.

The OSCE could thus, among other things, act as an international platform for knowledge generation and exchange, mediation, and dialogue on economic connectivity matters and offer its good offices for horizontal and vertical co-ordination between participating States aimed at further promoting and enhancing economic connectivity within the OSCE region.

- Such a platform need not be limited to governments and governmental organisations only. The OSCE has a positive track record of co-operation with the private sector and non-governmental organisations, whose expertise could be further incorporated in developing a tool box for enhancing economic connectivity. It would be critical in such an endeavour to extend engagement to new stakeholders:

business organisations, such as Chambers of Commerce and multi-national companies; financial organisations, such as international and regional financial institutions or private sector organisations like the Western Union; technical organisations, such as the Energy Community; European multilateral organisations with different and at times overlapping member constituencies and regional anchors, such as EFTA or CEFTA; or organisations which are already and successfully dealing with various connectivity issues such as the International Commission for the Protection of the Rhine.

- Moreover, there is a critical value in Track 2 initiatives, involving among others, think tanks, academic institutions and private sector organisations. These can further enhance the quality of evidence-based policy dialogue which can then inform policy making within the OSCE and its participating States. Concrete projects that are linked with up-stream policy advisory services and down-stream project evaluations in the long term enhance results and value for money, and thus contribute to both higher levels of economic connectivity and more sustainable capacity locally, nationally, and across the OSCE area and all relevant actors.
 - The Office of the Co-ordinator of OSCE Economic and Environmental Activities, in co-operation with the OSCE field operations, CiO, and upon request by the participating States regularly organises events, meetings, workshops, conferences and seminars. Their impact is usually measured on a short-term basis. It would be very useful to understand the mid-term effects of these gatherings in order to adapt the programmes to achieve best possible results. The involvement of academic institutions in conducting evaluation activities of OCEEA activities would increase future capacity of the Co-ordinator's Office to organise activities that have impact and offer value for money.
 - Within a Track 2 approach, academic institutions are a place to think 'out of the box', and outside already established formats of dialogue. More academic engagement with and on, the OSCE could
- also contribute to elaborating positive narratives of economic diplomacy and economic connectivity. An interdisciplinary approach involving different disciplines (such as, for example, political science, economic geography, contemporary history and anthropology) will enrich existing knowledge and enhance understanding of the full potential of economic connectivity and how best to realise it. This should also include efforts to better understand the past. Using the archives of the Prague Office of the OSCE Secretariat (the CSCE/OSCE Archive and Centre for Documentation) would be a crucial, and to date under-utilised, resource for understanding the past and enabling a better future.
- An OSCE connectivity platform also needs to be mindful of the fact that economic connectivity has taken on a distinctly regional dimension. This poses a challenge in terms of potential fragmentation of economic spaces across the OSCE area but also offers opportunities for cross-regional knowledge transfer and the implementation of best practices. The OSCE can promote a constructive agenda here by utilising the forum of high-level meetings and conferences attended by senior government officials, including at the sub-regional level,¹⁰⁹ and encourage greater exchange and co-ordination and integrate these efforts into cross-regional and OSCE-wide knowledge generation and exchange.
 - Within an OSCE connectivity platform, Track 2 initiatives could provide a flexible and agile mechanism to explore and capitalise on connectivity opportunities as and when they arise. This could involve utilising peer-learning approaches drawing on the substantial existing track record across the OSCE region on how to tackle connectivity issues across sensitive borders. Track 2 initiatives would thus also provide safe spaces within which interested actors could gain a better understanding of technical solutions to similar challenges successfully addressed elsewhere. Such discussions could be conducted outside otherwise politicised



Speakers of the Concluding Meeting of the 26th OSCE Economic and Environmental Forum, Prague, 5–7 September 2018. (Credits: OSCE/Lubos Kotek)

contexts but remain connected to them within the broader OSCE context. Providing evidence on technically viable solutions to restore, strengthen, and enhance economic connectivity could then inform a reappraisal of the political feasibility of particular connectivity projects. An OSCE connectivity platform, enriched and used in this way by individual Chairmanships, would not only contribute to the OSCE's confidence-building mandate but would also offer a sustainable pathway to reinvigorating the OSCE's second dimension for that purpose as envisaged in the Helsinki Final Act.

- An OSCE connectivity platform thus enriched and put to frequent and constructive use would also form a solid foundation for the Organisation to work towards developing a comprehensive menu of options — a 'tool box' — from which participating States could choose as they pursue activities to enhance economic connectivity bilaterally or multilaterally. The development of such a tool box could proceed step-by-step and through a variety of forms of engagement and interaction between all different stakeholders. For example, side events at formal OSCE meetings, informal or *ad hoc* gatherings of specific stakeholders outside the OSCE calendar, and common projects, could be supported in a more systematic and longer-

term manner if successive CiOs would co-operate and co-ordinate in setting multi-annual priorities for economic connectivity.

The OSCE will continue to face challenges and opportunities in the future. These may neither be wholly related to the second dimension or be dealt with through economic activities. Yet, economic connectivity will be relevant to at least some of them.

- The OSCE has 57 participating States and 11 Partners for Co-operation. China, the most important neighbour of the OSCE, is not (yet) involved. This is despite the fact that China's engagement with participating States has important implications for connectivity and security. The Belt and Road Initiative is the most obvious example of this to date.
- Involving China in the discussion within the OSCE on economic connectivity would be a vital step to capitalise on important synergies, avoid misunderstandings, and promote confidence as China becomes a more significant economic and political actor in the OSCE area. There has been some tentative contact in the OSCE second dimension, for example when Chinese representatives took part in the German Chairmanship's 2016 Business Conference 'Connectivity for Commerce and Investment' in Berlin.

- Such a dialogue between China and the OSCE could be facilitated and encouraged as a Track 2 initiative bringing academic experts together and then gradually expanding this format to involve other relevant stakeholders from the public and private sector, regional and international organisations, and national government representatives. In a more general sense, encouraging cross-participation at respective events would also be a way to foster closer interaction and co-operation between China and OSCE.
- Another future challenge for the OSCE could be the Arctic, where issues of economic connectivity will become critical to relationships between participating States, including Arctic resource management and new trade routes. Here, too, the OSCE second dimension offers opportunities for an exchange between key actors to prevent the emergence of tensions and contribute to co-operative management of the Arctic potential. This could be pursued in close co-operation and co-ordination with the Arctic Council, whose seven member states are also OSCE participating States.

Annex:

OSCE Activities with Regard to Economic Connectivity

Economic activities of the OSCE derive from the mandate given to its executive structures and, where applicable, to local field presences. Among the range of such economic activities, a distinction between two categories can be made: *direct* and *indirect* activities (see Table 1). *Direct* activities concern those that have a direct impact on economic relations across border lines, such as trade facilitation, improving capacity of border agencies, improving access to information, and so on. The *indirect* category covers empowerment of economic actors with knowledge of international standards, practices and tools, targeted programmatic support in identified areas of strategic economic needs (assistance with legislation enhancement, regulatory updates, etc.) and similar support to economic development activities.

Both direct and indirect types of economic activities with regard to economic connectivity can have a confidence-building character.

They are potentially applicable at different phases in the conflict cycle. Participating States should, therefore, 'make greater use of confidence-building and confidence- and security-building measures.'¹¹⁰ They are part of a broader category of non-military confidence-building measures (CBMs). In this context it is also important to bear in mind that '[c]ross-border and inter-community trade can also help provide a basis for dialogue and a co-operative approach to joint problem-solving beyond the economic domain.'¹¹¹



Participants during the Country Working Group Session drafting the National Roadmap on how to join the ICAO Public Key Directory (PKD), a central repository for exchanging the information required to authenticate ePassports, in Budva, Montenegro, 15–16 November 2018. (Credits: OSCE/Magda Jugheli)

The OSCE is active in many different fields that concern connectivity, but only a few of these activities have the character of a CBM (see Table 1). Where the OSCE has a mandate as an official mediator in a conflict situation, it has sometimes been able to directly and indirectly address connectivity issues, yet only as long as the parties to the conflict have allowed it to do so. Within the activities not intended as a CBM, a strong emphasis has been put on training for customs officials and other border agencies, often also with a focus on security threats rather than trade facilitation. This corresponds to the OSCE's mandate as a security organisation.

The OSCE is also supporting market-oriented economic reforms in participating States, by directing technical assistance to national reform processes, by channelling international experience, and by providing platforms for domestic actors to have an informed discussion and deciding on the way forward. The key advantage of the OSCE here is its size, flexibility and low degree of specialisation. Unlike the other actors in the field, the OSCE can bring different international players together with domestic actors, as the OSCE agenda is often less specific than that of other organisations. It can therefore act as a unifying platform.

Table 1: Examples of OSCE activities furthering economic connectivity¹¹²

	Direct	Indirect
Economic activities in conflict-affected settings	<p>Talks in the '5+2 format' in Moldova, with OSCE Special Representative as one of the mediators: Reopening of Gura Bicului-Bychok agreed on in November 2017 and 'licence plate agreement' reached in April 2018 will allow for a revival of road traffic between Moldova and Transdniestria, enabling trade.</p> <p>Talks in the 'Trilateral Contact Group on Ukraine', with an OSCE Special Representative as one of the mediators, and OSCE Special Monitoring Mission to Ukraine (SMMU): Prior to 2017, talks in the Group have been instrumental in keeping railway lines open for coal shipping across Donbas. Those lines are now blocked by government blockade. Monitoring by SMMU ensures safe passage of cars and pedestrians at crossing points, enabling petty trade.</p>	<p>Economic Rehabilitation Programme, Georgia, 2006–08: €8 million for investment in economic projects (focused on agriculture) in the Georgian-Ossetian conflict zone, joint project execution with contractors from both sides, joint management. However, the outbreak of fighting in 2008 terminated the project.</p>
Other economic activities	<p>Border Management Staff College, Dushanbe: Since 2009, more than 3,000 mid- to senior-level border security and management officials from across the OSCE and Partners for Co-operation area have been trained at this cross-dimensional facility. Strong focus on CA and AFG. Currently, three four-week staff courses containing an economic module. A 12-month Senior Leadership course developed in co-operation with the Geneva Centre for the Democratic Control of Armed Forces and accredited in Estonia place once every two years.</p> <p>Support to cross-border markets Tajikistan-Afghanistan (2012–15): via an Implementing Partner, OSCE Programme Office in Dushanbe has rendered legal assistance to Tajik traders at three markets and provided information on the trade situation at those markets.</p> <p>Support to the Customs Service of Kyrgyzstan: Since 2009, the Programme Office in Bishkek has supported the Kyrgyz Customs Service in enhancing training capacities. The OSCE has supported the construction of a training centre and continues to support training at the centre. Previously, training was also conducted jointly with Afghan officials.</p> <p>Workshops aimed at furthering trade facilitation reforms: Those are conducted at the request of host governments by various Field Operations on specific topics. Since 2017, the OSCE Secretariat is implementing the project 'Promoting Economic Connectivity in the OSCE' in Belarus, Kazakhstan, and Moldova. Workshops under this project serve as a platform for government and private stakeholders to increase their knowledge and co-ordinates approaches. The recommendations emanating from the workshops should be reflected in the National Trade Facilitation roadmaps and/or efforts.</p>	<p>Support to the Systemic Regulatory Reform in Kyrgyzstan (since 2016): Implementation of the reform measures, the identification of which has been supported by the Programme Office in Bishkek, will result in improved governance and reduce the burden on businesses, also enabling them to more effectively engage in foreign trade.</p> <p>Publication of joint OSCE-UNECE 'Handbook of Best Practices at Border Crossings – A Trade and Transport Facilitation Perspective' by the OSCE Secretariat in 2012. The handbook intends to present best practices and serve as a catalyst for trade facilitation.</p>
	<p>Support to the establishment of Special Economic Zones: The OSCE Programme Offices in Astana and Dushanbe support their host governments in gathering information and the establishment and the administration of special economic zones.</p>	

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Odessa Railway Station is the endpoint of the Chişinău-Tiraspol-Odessa railway route. Re-opened in 2011, it has made an important difference to the everyday lives of the people who live in the region. Through OSCE-supported dialogue and co-operation, real progress was made towards enhanced connectivity across the River Nistru/ Dniester. (Credits: OSCE/Jonathan Perfect)



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